

Message Text

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ACTION EUR-12

INFO OCT-01 ARA-10 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00

COME-00 DODE-00 EB-08 DOE-11 H-01 INR-10 INT-05

L-03 NSAE-00 NSC-05 OMB-01 PM-05 USIA-06 OES-07

SP-02 SS-15 STR-07 TRSE-00 ACDA-12 /129 W

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FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC 8739

INFO AMEMBASSY BELGRADE

AMEMBASSY BERLIN

USMISSION USBERLIN

AMEMBASSY BONN

AMCONSUL FRANKFURT

USINT HAVANA

AMCONSUL LENINGRAD

AMCONSUL MUNICH

USMISSION USNATO

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY WARSAW

USDOC WASHDC

C O N F I D E N T I A L MOSCOW 03897

USDOC FOR BEWT

E.O.11652:GDS

TAGS: ENRG, EEW, ECEM, EWW, COMECON, UR

SUBJECT: PROGRESS OF ORENBURG: SOVIET OIL HARDER TO SELL

REF: MOSCOW 3689

SUMMARY: GERMAN AND BRITISH EMBASSY OFFICIALS ARE
SKEPTICAL THAT ORENBURG PIPELINE WILL BE COMPLETED IN 1978
OR THAT MUCH GAS WILL FLOW ONCE PIPELINE IS FULLY IN
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PLACE. NONE OF 24 PUMPING STATIONS ACQUIRED FROM FRG HAVE
BEEN INSTALLED. GERMAN PURCHASES OF CRUDE OIL FROM USSR
REPORTEDLY DROPPED DM 80 MILLION AND OF REFINED PRODUCTS
AND GAS DROPPED DM 60 MILLION IN 1977, DESPITE SEVEN
PERCENT INCREASE IN PRICE OF GAS. GERMANS FOUND THEY COULD
BUY OPEC OIL MORE CHEAPLY THAN SOVIET. END SUMMARY.

1. DURING MARCH 3 MEETING OF ECONOMIC/COMMERCIAL COUNSELORS OF FIVE MAJOR WESTERN EMBASSIES IN MOSCOW, GERMAN MINISTER-COUNSELOR STUELPNAGEL EXPRESSED SKEPTICISM THAT ORENBURG PIPELINE PROJECT WOULD BE COMPLETED THIS YEAR ON TIME. HE NOTED THAT NONE OF 24 PUMPING STATIONS SOLD BY GERMANS FOR ORENBURG HAVE YET BEEN INSTALLED. GERMAN BANKS, HE SAID, BELIEVE THAT IN 1978 ORENBURG PROJECT WILL REQUIRE ANOTHER 400 MILLION DOLLAR LOAN. BRITISH EMBASSY COUNSELOR SAID THAT EVEN IF PIPELINE SHOULD BE COMPLETED, THERE IS LIKELY TO BE VERY LITTLE PRESSURE AVAILABLE TO MOVE ANY SUBSTANTIAL AMOUNT OF GAS AT OUTSET. BY WAY OF CONTRAST, HE THOUGHT THAT SOVIETS WOULD COMPLETE PIPELINE FROM TYUMEN FIELDS TO CHELYABINSK ON TIME.

2. ACCORDING TO STUELPNAGEL, THE FRG REDUCED CRUDE OIL PURCHASES FROM USSR BY DM 80 MILLION IN 1977 AND REDUCED PURCHASES OF REFINED PRODUCTS AND NATURAL GAS BY DM 60 MILLION, DESPITE THE SEVEN PERCENT INCREASE IN PRICE OF GAS. ON THE OTHER HAND, THEY MORE THAN DOUBLED THEIR PURCHASE OF SOVIET CHEMICAL PRODUCT FROM DM 239 MILLION TO DM 543 MILLION. HE ATTRIBUTED REDUCED PURCHASE OF SOVIET CRUDE TO UNWILLINGNESS OF SOVIETS TO BUDGE FROM OPEC PRICES AT A TIME WHEN GERMANS FOUND THE OPEC PRODUCERS, THEMSELVES, WERE PROVING TO BE FLEXIBLE ABOUT THEIR PRICES.

3. STUELPNAGEL FURTHER REPORTED THAT SOVIET MINISTER OF
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THE CHEMICAL INDUSTRY KOSTANDOV IS PUSHING HARD TO INCREASE THE OUTPUT OF ARTIFICIAL FIBERS, EVEN THOUGH THE DOMESTIC MARKET IN THE USSR FOR SUCH PRODUCTS WAS WEAK. THE BRITH, FRENCH AND ITALIAN COUNSELORS AGREED WITH THESE ASSERTIONS. STUELPNAGEL, BY WAY OF ILLUSTRATING THE INCAPACITY OF THE SOVIET SYSTEM TO ADJUST TO CONSUMER TRENDS, REPORTED THAT THE SOVIETS HAD RECENTLY REJECTED A GERMAN SHIPMENT OF QUALITY IGH-T-WEIGHT WOOLEN TEXTILES BECAUSE THE WEIGHT OF THE SHIPMENT SEEMED TO THEM TOO INSUBSTANTIAL FOR THE PRICE.

4. COMMENT; ALTHOUGH THE BAYBAKOV STATEMENT ON THE 1978 ECONOMIC PLAN WAS SLIGHTLY AMBIGUOUS ABOUT COMPLETION OF ORENBURG, OUR SOVIET AND CEMA SOURCES TEND TO THE VIEW THAT IT WILL BE COMPLETED BY THE END OF THE YEAR. IT SEEMS UNCLEAR HOW MUCH GAS COULD BE PUMPED NEXT YEAR, BUT ORENBURG WOULD NEED TO BE FULLY OPERABLE BY END OF 1979 IF 1980 TARGETS ARE TO BE MET. SLOW PROGRESS IN INSTALLATION OF PUMPING STATIONS COULD MEAN A BELATED RETURN FOR EAST EUROPEANS FROM THEIR "INVESTMENT" IN THIS PROJECT.

5. THE ASSERTION ATTRIBUTED TO GERMAN BANKERS THAT 400

MILLION DOLLARS RPT DOLLARS MORE IS NEEDED FOR THIS PROJECT
IN 1978 IS NOT NECESSARILY INCONSISTENT WITH IIB PRESIDENT
BELICHENKO'S STATEMENT THAT ORENBURG REQUIRES NO MORE
BORROWING BY IIB. PRESUMABLY THE ADDITIONAL LOANS COULD BE
MADE DIRECTLY TO THE SOVIET FOREIGN TRADE BANK, PERHAPS ON
BANK-TO-BANK BASIS THAT WOULD ATTRACT LESS INTERNATIONAL
ATTENTION. IF THE MONEY IS NEEDED, IT WOULD OF COURSE
STRENGTHEN PRESUMPTION THAT SOME OF IIB'S BORROWING FOR
"ORENBURG" WAS PUT TO OTHER USES. THIS INCREMENTAL \$400
MILLION SHOULD NOT BE CONFUSED WITH PENDING LOAN FROM
DEUTSCHE BANK TO IIB FOR A PURPOSE OTHER THAN ORENBURG.
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